



June 29, 2011

The Honorable Mayor and City Council
El Paso, Texas

Ladies and Gentlemen:

Each year we grapple with increasing demand for services and infrastructure investments, while simultaneously confronting the reality of limited revenues, pressures to reduce taxes, and a growing community that lacks important services and infrastructure in various parts of our City. These competing demands have been compounded in recent years by a serious national economic downturn, instability and unpredictability resulting from the serious violence which plagues Ciudad Juarez, a flattening of real estate prices and sales tax revenues, and an increase in unemployment. Despite these challenges, El Paso has continued to position itself as one of the higher performing cities and regions nationally, due to innovative approaches to control expenditures and focus on our unique assets so that we are poised to respond quickly as the economy improves.

Over the past three years our budget has remained relatively flat or declined. We have reduced over \$3 million in management and other positions, restructured the organization to gain efficiencies where possible, negotiated delays in salary adjustments with public safety unions, modified work schedules to a 4/10 operation that saved approximately \$430,000 annually, plus diversified operating hours for the public and improved employee morale and unscheduled absences. Every city agency has been asked to do more with less. Despite these cuts, we added new facilities, funded core public safety functions and added new staff for fire and police operations. We expanded services through a new 311 citywide communications program and authorized major investments in technology to improve our productivity and efficiency. We aggressively sought federal and state grant funding which allowed us to expedite certain capital projects and alternative energy innovations.



Office of the City Manager

TWO CIVIC CENTER PLAZA, 10TH FLOOR, EL PASO, TEXAS 79901-1196

PHONE: (915) 541-4844 ♦ FAX: (915) 541-4866

www.citymanager@elpasotexas.gov

Mayor

John F. Cook

City Council

District 1

Ann Morgan Lilly

District 2

Susie Byrd

District 3

Emma Acosta

District 4

Carl L. Robinson

District 5

Dr. Michiel R. Noe

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Joyce A. Wilson

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Throughout this period, City Council advanced an aggressive capital improvement program designed to improve the City's infrastructure, remedy years of neglect and disinvestment, improve and expand quality of life assets important to a growing city competing for new jobs and industry clusters in an increasingly complex environment, and lay the groundwork for a 21st century public transit system and green technologies. For the first time, City Council authorized approximately \$71.2 million in General Fund supported debt to capitalize a Rapid Transit System. These funds will leverage nearly \$100 million in state and federal dollars, but it also places a new and different obligation on the General Fund debt service tax rate. These investments, along with various economic development incentives to stimulate smart code development, multi-family housing developments, the first transportation reinvestment zone in the state, and downtown reinvestment will dramatically alter our community in the long term. In the immediate term, these actions put pressure on the real estate tax rate and make it more difficult to balance the overall budget within an effective tax rate without cutting services.

Within this framework, I respectfully present the City administration's Fiscal Year (FY) 2012 Proposed Budget. The All Funds Budget is \$706.7 million with the General Fund portion at \$321.3 million. The All Funds Budget represents a 1.9% increase over FY 2011. Total staffing is recommended at 6,279.50 full-time-equivalent positions (FTE). General Fund FTE is reduced by 48.26, while those funded by All Fund sources increase by 76.62 FTE. The increase is primarily attributable to the Library's Broadband Technology Opportunities Program (BTOP), a federally funded program.

A breakdown of the budget by departments (all funds and general fund only) is provided for your review.

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All Funds Summary:

Department	Adopted Budget FY2011	Proposed Budget FY2012	Adopted/ Proposed Variance
Aviation	\$37,972,778	\$37,683,420	\$289,358
City Attorney	4,389,906	4,439,901	(49,995)
City Manager	2,789,482	2,877,153	(87,671)
Community & Human Development	17,009,514	16,984,725	24,789
Convention and Performing Arts Center	11,673,575	7,828,575	3,845,000
Department of Transportation	15,837,789	16,657,915	(820,126)
Engineering & Construction Management	6,980,148	7,502,826	(522,678)
Environmental Services	52,263,565	53,921,311	(1,657,746)
Financial Services	3,134,996	3,438,235	(303,239)
Fire	89,487,355	92,545,569	(3,058,214)
General Services	43,071,291	42,734,095	337,196
Human Resources	2,415,159	2,464,575	(49,416)
Information Technology	11,024,545	12,888,990	(1,864,445)
International Bridges	16,253,992	17,625,750	(1,371,758)
Library	8,797,540	8,265,111	532,429
Mass Transit - Sun Metro	58,413,333	61,093,815	(2,680,482)
Mayor & Council	1,293,165	1,263,038	30,127
Metropolitan Planning Office	1,560,489	1,713,022	(152,533)
Municipal Clerk	5,914,461	5,700,109	214,352
Museums and Cultural Affairs	3,796,425	4,177,003	(380,578)
Non-Departmental	135,700,300	145,197,359	(9,497,059)
Parks & Recreation	11,890,271	12,119,147	(228,876)
Planning & Economic Development	4,515,232	4,826,764	(311,532)
Police	114,640,434	115,510,446	(870,012)
Public Health	21,604,918	19,297,521	2,307,397
Tax	4,377,609	1,548,970	2,828,639
Zoo	6,252,022	6,380,819	(128,797)
Department Totals	\$693,060,294	\$706,686,164	(\$13,625,870)

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General Fund Summary:

Department	Adopted Budget FY2011	Proposed Budget FY2012	Adopted/ Proposed Variance
City Attorney	\$4,041,961	\$4,094,152	(\$52,191)
City Manager	2,789,482	2,877,153	(87,671)
Community & Human Development	537,090	527,398	9,692
Department of Transportation	12,787,409	12,904,395	(116,986)
Engineering & Construction Mgmt	6,980,148	7,502,826	(522,678)
Environmental Services	475,791	2,530,092	(2,054,301)
Financial Services	2,900,274	3,164,108	(263,834)
Fire	85,020,432	88,960,848	(3,940,416)
General Services	25,079,141	25,325,292	(246,151)
Human Resources	1,819,270	1,862,805	(43,535)
Information Technology	10,393,075	11,522,240	(1,129,165)
Library	8,131,724	8,129,542	2,182
Mayor & Council	1,293,165	1,263,038	30,127
Municipal Clerk	4,997,461	4,728,609	268,852
Museums and Cultural Affairs Dept	2,201,784	2,263,041	(61,257)
Non-Departmental	6,712,381	7,648,320	(935,939)
Parks & Recreation	11,483,595	11,790,471	(306,876)
Planning & Economic Development	3,745,043	3,606,124	138,919
Police	107,934,125	109,531,942	(1,597,817)
Public Health	8,335,493	5,937,669	2,397,824
Tax	4,377,609	1,548,970	2,828,639
Zoo	3,513,012	3,574,618	(61,606)
Department Totals	\$315,549,465	\$321,293,653	(\$5,744,188)

Key budget highlights are as follows:

ECONOMIC GROWTH AND VITALITY

The FY 2012 Proposed Budget recommends the following adjustments:

- A decrease in the Planning and Economic Development's (PED) budget of \$139,000 to account for salary savings due to several key vacancies that will not be filled until early in the next fiscal year.
- An increase in economic incentive rebate obligations from \$471,000 to \$933,000, due primarily to new agreements and improved performance of the Hotel Don Quixote. New agreements for Redcats and Boeing account for approximately \$279,000, of which Redcats is totally derived from sales tax revenues. The remainder of the increase is mainly attributed to Hotel Don Quixote. This project rebate is expected to increase significantly due to increased revenues. The City's incentive obligation to this project is based on collections of several different taxes: Sales Tax, Beverage Tax and Hotel Occupancy Tax (HOT).
- The Aviation Department will continue working with PED to more aggressively market and develop the airport's real estate assets around the Butterfield Trail Golf Course and the Science and Technology Research Park planned development.
- Combined funding of \$275,264 for Project ARRIBA from the General Fund and Community Development Block Grant to create a permanent and sustainable source of local nurses, teachers and other demand careers to address the shortage in the El Paso region.
- Funding of \$100,000 for the El Paso Regional Economic Development Corporation (REDCO) as part of the City's effort to attract new businesses to El Paso.
- A refocused effort on small business development and assistance, local organic growth and innovation, a better coordinated and sophisticated regional public relations and communications strategy, and reassessment of our business attraction approach.
- An enhanced focus on improving business support and customer service through various customer service improvements such as: additional Customer Service Clerks in the 5th floor Business Center, an upgrade in a new automation system that consolidates individual department data into a city-wide database for permit, licensing and many other requests. This new tool will enhance internal workflows and reduce customer time plus allow for on-line permitting and licensing renewal.

- Reorganization to separate plan review into commercial and residential areas, combine subdivision inspection with construction inspection along with adjustments to the practice of using the QFlow system to reduce customer waiting time.
- A review and rewrite of key regulatory codes to help streamline the City's bureaucracy to reduce delays in plan reviews, processing permits and various business licenses.
- Code revisions to allow parking reductions that make infill projects more feasible.
- Finalize remaining code revisions to accomplish the City Council's Smart Growth goals.
- Adoption of the City's Comprehensive Plan.
- A recommendation to adjust various fees to promote development within targeted zones and smart code standards as recently adopted by City Council.

ENVIRONMENTAL SERVICES

The FY 2012 Proposed All Funds Budget for Environmental Services is \$53.9 million with the General Fund portion at \$2.5 million. This represents a 3.2% increase over FY 2011. Several changes and new programs are proposed to maintain our commitment to Council's environmental policy goals. They include:

- Merging the Animal Services Division with Environmental Services to better support revisions of Title 7 - Animal Services, as approved this year. A total of 64 FTE will transfer from Public Health to Environmental Services. This will allow for cross training among all code compliance officials and a more concerted seven (7) - day focus on animal welfare and code compliance issues.
- Providing a dedicated task force to focus solely on implementing the City's newly enacted Vacant Building Ordinance. The Vacant Building Task Force will include two (2) existing Building Inspectors, one (1) Fire Inspector, and one (1) Chief Building Inspector.
- Adding nine (9) code compliance staff (General Service Worker—1, Code Compliance Inspector—6, and Building Inspectors—2) to continue to enforce the increasing responsibility of Title 9.04 – Health and Safety, Solid Waste Management. These new staff members will comprise an evening and weekend code enforcement team to provide extended and expanded enforcement coverage – targeting neighborhoods and establishments that we cannot easily inspect during daytime operating hours. Also, staff will be working to revise several key environmental codes to enhance our performance and effectiveness in remedying chronic environmental problems.

- Expanding the City's Sustainability Program by adding a new environmental planner to assist in supporting these new proposed activities:
 - Providing carpool options for interested employees
 - Establishing a bicycle pool for various city buildings to reduce dependence on personal vehicles and motor pools for short distances
 - Imposing a 'no vehicle idling policy' for all city vehicles
 - Promoting mass transit during high ozone days using discount passes and/or free service on certain high ozone level days
 - Extensive education and outreach related to energy, climate and recycling
 - Enhanced recycling at City facilities
 - Greater focus on green building efforts for current as well as new buildings
- Implementing a new city-wide mulching initiative that would expand our present recycling efforts to include yard waste collection at the Citizen Collection Stations and Clint Landfill. This material will then be recycled into mulch and used at city parks and other public facilities. Start-up costs for capital equipment are estimated at \$825,000, but the savings to the landfill should be more than sufficient over time to warrant this investment. The initiative will include a pilot compost program to establish design parameters and evaluate the market demand of the product.
- Adding \$350,000 for litter maintenance to restore contract litter services in city parks which were significantly reduced in previous years.
- Establishing a budget of \$250,000 for demolition services and \$400,000 for asbestos abatement services required periodically but not generally budgeted in advance. All costs recovered would be reimbursed to the environmental fund going forward.

To support these changes, we are recommending the following fee adjustments:

- A requested increase in the residential environmental fee from \$2.50 to \$3.00, and the commercial environmental fee from \$13.00 to \$14.00. This increase will pay for all landscaped median maintenance, the street sweeping and graffiti program, and enhanced downtown cleaning and maintenance services. A portion of this new funding will be used for Animal Service field compliance and for a dedicated Vacant Building task force. This increase is based on growth within the service area, addition of new streets and newly landscaped medians into the system, volume of activity relative to enforcement and pressures to enhance cleanliness and code compliance. The proposed service improvements cannot be supported without a fee increase.
- An increase to the minimum landfill fee from \$8.00 per load to \$16.00 per load to cover actual costs.

HEALTH AND SAFETY

The FY 2012 Proposed All Funds Budget for Fire is \$92.5 million with the General Fund portion at \$89.0 million. This represents an increase of 3.4% over FY 2011. This amount funds the full year operation of the 311 Non-Emergency Communications Center, a new fire facility (Station #31 at North Mesa), including funding for 19 firefighters to staff the facility, scheduled to open during the first quarter of CY 2012.

The FY 2012 Proposed All Funds Budget for Police is \$115.5 million with a General Fund portion of \$109.5 million. This represents a 0.8% increase over FY 2011. The proposed budget includes two academies of 50 and 25 officers, respectively. The academy of 50 commences in July 2011 with anticipated graduation in December 2011 and the academy of 25 is scheduled to commence in March 2012.

There has been much discussion over the past two years about the adequacy of police patrol staffing. This year the City contracted with MGT of America, an Austin-based firm specializing in law enforcement analysis. MGT was asked to conduct an analysis of patrol staffing requirements for the El Paso Police Department (EPPD), to review and recommend the most cost effective organizational structure, and to review other recent studies for comparison and contrast. MGT conducted a review of the operating and capital budgets, a peer review to benchmark against comparable communities and an analysis of all 911 calls for service over a selected period of time. Key among the findings was a recognition that EPPD patrol spends very little time on proactive policing, an indicator that patrol staffing needs to increase. MGT also noted several productivity enhancements which, if implemented, would increase patrol presence almost immediately utilizing existing patrol resources. Finally, MGT noted that any increase in staffing must be tied to specific performance measures such as response times and/or increasing the percentage of proactive policing.

Specifically:

- Increase the number of one-person patrol deployments versus full crew. Twenty new patrol vehicles were added to the fleet in FY 2011 specifically for this purpose. A night-shift fleet maintenance crew was added to reduce the out-of-service time for police and other critical fleet. The department is implementing this recommendation now.
- Adjust staffing schedules to more effectively match service demands based on calls for service analysis. The patrol scheduling system is being adapted to adjust staffing to support peak service demands.
- Reassess the process for arrests, booking and transport procedures to reduce officer out-of-service time, which is often extensive depending on the event. The department is exploring use of a transport service or transport officer to allow an officer to transfer an arrestee at the regional command center after completion of the initial paperwork.

- Establish a clearer protocol to better utilize a telephone reporting system. Such a system can dramatically reduce need for an officer response to some incidents, but the system would need to be staffed regularly and for extended hours, and publicized extensively to build community support and confidence in its viability. MGT's review shows that EPPD patrol covers a number of such calls where an officer response is not optimal. Better utilization will also reduce a perception of slow response to such calls. The department is exploring the advantages of aligning this function with the 311 Call Center utilizing the service contract for this purpose and housing the function at the 911 District to potentially reduce costs.
- Reduce the amount of court time required of EPPD officers. Often as many as 12-15 officers can be subpoenaed for a case when in reality only 2-4 will testify. MGT recommends a court liaison program to work more closely with prosecutors to make better use of officers' time in court in an effort to reduce costs and time away from patrol. The department is presently revising its incident reporting protocols to account only for those officers necessary to testify.
- Reorganize administratively to reduce to three (3) assistant chief positions over the next 18 months with one (1) position being eliminated in FY 2012 due to attrition.
- Agree to a plan to increase the work force based on mutually agreed benchmarks. MGT makes several recommendations in this regard. One measure on which City management and Police administration concur is the need for an increase to time spent on proactive policing. Presently, EPPD patrol spends virtually no time on proactive policing. The current measure is 75/25 percent (reactive policing/administration). Using a goal of 60/20/20 percent (reactive/proactive policing/administrative time), we would need to increase the sworn force by 98 additional officers. This target does not factor in any impacts from the other efficiency and productivity enhancements. An implementation plan is being recommended in conjunction with this proposed budget.

The FY 2012 Proposed All Funds Budget for Public Health is \$19.3 million with the General Fund portion at \$5.9 million. This represents a 10.7% decrease below FY 2011, due to relocation of the animal services function. The following are specific program priorities for FY 2012:

- Increase outreach activities to improve the immunization rates in El Paso County. The Public Health Department will collaborate with community based organizations, local school district officials, and affiliated organizations to increase outreach activities. This effort will include the identification of key issues through the development of neighborhood-specific immunization marketing plans, expansion of an education plan for the public related to adult immunizations, target workforce members that are at risk for exposure, and provide the general population with material on disease risks that are preventable through immunization.

- Establish a health database while monitoring and reporting periodically to the public and related health partners on the overall health benchmarks and indicators of the region. The database will be available and searchable on the City's website to facilitate the flow of information with the public and community partners.
- Expand the role of the City's Public Health agency as the lead regional public health resource for the greater El Paso region through expansion of the 40+ partner health organizations. Greater efforts will be made to collaborate on grant applications in order to bring more health organizations to the table as new programs are introduced to the community.

MOBILITY SERVICES

Advancing the mobility agenda as directed by City Council remains a priority for this upcoming fiscal year. The FY 2012 Proposed All Funds Budget for Mass Transit - Sun Metro is \$61.1 million. This represents a 4.6% increase over FY 2011. Several program enhancements are proposed within the funding recommendations. They include: introduction of night service beginning in January 2012, introduction of new express routes, increase in marketing budget and efforts, increased costs for maintaining new facilities, and additional staff to support new services. The focus of Sun Metro will be to continue planning/designing the Rapid Transit System, utilizing a "complete streets" philosophy for all infrastructure improvements, and attracting new riders to convert from the private vehicle to public transit. No fee increase is proposed for FY 2012.

The FY 2012 Proposed All Funds Budget for International Bridges is \$17.6 million. This represents an 8.4% increase over FY 2011. Capital improvements include upgrading the parking technology and the expansion of the parking meter program (\$1.7 million), improvement to the commercial ingress and egress for the Zaragoza port of entry (\$5.3 million), relocation of the commercial toll facility and the construction of a cargo hold area (\$4 million). A capital funding plan will be developed and brought forward to City Council during the upcoming fiscal year. The goal for FY 2012 is to implement the short-term recommendations of the bridge operations plan and develop a five (5) year strategy to address other strategic recommendations. We will be formally soliciting operations and/or concession services for the international bridges owned and operated by the City in order to explore alternatives to determine if we can enhance the performance of these assets.

The FY 2012 Proposed All Funds Budget for Aviation is \$37.7 million. This represents a 0.8% decrease from FY 2011. Aviation service priorities include the continuation of air service development, airfield capital improvements, the adoption and implementation of a Customer Facility Charge (CFC) for the development and maintenance of a consolidated quick turn-around facility and ready-return lot expansion for rental car operations. The key non-aviation priority is to aggressively seek private sector investors to invest in the Science and Technology Park and a hotel at the Butterfield Trail Golf Club. Other priorities include completion and adoption of the

Southern Industrial Park land use plan, business retention strategies in the Butterfield Trail Industrial Park, and a Foreign Trade Zone SWOT analysis/futurist study to address potential impacts from the movement of Union Pacific operations to Santa Teresa.

The FY 2012 Proposed All Funds Budget for the Department of Transportation (El Paso DOT) is \$16.7 million with the General Fund portion at \$12.9 million. This represents a 5.2% increase over FY 2011. The increased funding is specifically targeted at growth in landscaped median maintenance due to the winter freeze, expanding funding for street restriping to support a growing roadwork system, and traffic signal lamp replacement. The department's landscaping and sidewalk construction efforts will center on transforming key segments of our transportation network into pedestrian friendly corridors that complement the Rapid Transit System investment. El Paso DOT will also implement the next phase of the Neighborhood Traffic Management Program projects made possible through Council's capital funding. The Downtown Parking and Loading Zone Plan will be implemented in FY 2012 as El Paso DOT and the International Bridges Department work to provide additional public parking in our City's business core.

COMMUNITY SERVICES

The FY 2012 Proposed All Funds Budget for Community Services is \$60.6 million with the General Fund portion at \$29.9 million. This represents a 5.2% decrease from FY 2011. The decrease is attributable to a change in the method of reporting for the Convention and Performing Arts Center and does not reflect a reduction to operations. Embedded in the City's budget is funding for Parks Maintenance (within General Services) to restore funding for park cleaning and other maintenance services that had been reduced over the past two (2) years and to pilot a winter field seeding program in an effort to preserve citywide athletic fields in light of heavy demand and usage.

While this budget retains level funding for these services and departments, we cannot continue to maintain current service levels without certain increases. Specifically, we are not adequately funding books and materials for the library system. We are not adequately addressing equipment replacement for recreation programs beyond the minimum; nor are we staffing adequately to cover facilities and programs at appropriate levels. Without some reasonable adjustments in the near future, we are providing an illusion of a level of service expectation that we are not meeting.

Also, for the first time in over ten (10) years, the Community Development Block Grant (CDBG) Program and the Home Investment Partnership (HOME) Program will see a sudden and drastic reduction in funding. Both programs, funded by the U.S. Department of Housing and Urban Development, have received substantial cuts that will impact programs and services to low income residents and neighborhoods in El Paso, this year, and in the years to come.

The CDBG program will receive a 16.5% reduction, which represents approximately \$1.5 million dollars. The HOME Program, which provides affordable housing to low income residents, will receive an 11.0% cut. In both cases, these cutbacks will represent reductions in opportunities to fund capital improvements, such as parks and street and drainage projects,

public services such as child care and youth recreation, and affordable housing opportunities. The decreases in funding will also cause a reduction in administrative personnel.

Regarding other federal and state funded programs, the greatest impact may be to our senior population due to the uncertainty of anticipated federal funding for the Retired Senior Volunteer Program (RSVP). This program is funded by the Corporation for National Community Services and has allowed seniors to volunteer in community centers, day care centers, nutrition centers, hospitals, and libraries in over 100 locations throughout El Paso County. Any potential decrease in funding will call for a reduction in administrative personnel as well.

We cannot absorb these cuts with local funds; therefore, both the recipients and service providers will be negatively impacted.

INFORMATION TECHNOLOGY

Approximately 18 months ago, the City of El Paso and El Paso County entered into a joint management services agreement to collaborate on a regional public technology infrastructure and maintenance support program. This collaboration has saved several million dollars in operations, licensing, and capital costs, while allowing the two (2) entities to benefit from an aggressive technology infrastructure investment program. City and County Information Technology (IT) staff have developed significant synergies and continue to work very closely to plan, develop, implement, and support several large projects that benefit both organizations and our mutual constituency, realizing improved effectiveness and cost savings. The City Council authorized approximately \$35 million over the past few years to refresh and expand technology capabilities in order to improve overall productivity and performance. All of this follows clear recommendations outlined in an IT Strategic Investment Plan, developed to identify gaps and set a clear direction for technology services, support, and capital outlay for a 21st century technology platform for this organization and community.

Key projects include:

- New state-of-the-art primary data center and redundant facility to address system vulnerability and lack of redundancy, as well as to replace obsolete servers significantly increasing performance and support of new software platforms.
- City-wide network infrastructure is being upgraded in response to the need for improved performance and stability. This improvement is critical to realizing the full potential of the systems investments as nearly all depend on quality network connectivity.
- Voice over IP (VoIP) has been piloted on the 9th and 10th floor of City Hall successfully. This success has led to the development of the next phase to implement city-wide VoIP. Cost reductions, efficient use of time, future systems integration, and enhanced functionality are expected benefits of this new technology.

- A new Enterprise Resource Program (ERP), PeopleSoft, will help City staff better track information and utilize improved workflows within and between departments. The departments benefitting from this effort include Financial Services, Office of Management and Budget, Human Resources, and Purchasing just to name a few. Effective use of PeopleSoft is proven to have a positive impact on an organization's information flow and internal controls.
- A major upgrade to the City's permitting and work order tracking system, which will allow for data consolidation among departments, electronic payments and license renewals, and electronic plan review.
- Refreshment of all data servers and personal computers and other ancillary equipment.
- Overhaul of the City's website to provide for more interactivity, easier navigation and the implementation of a content management system that will enable each department to better manage information and update data without requiring a central point of contact.

To properly support all of these projects and meet the elevated service expectation, the IT department is completing a staff reorganization and reclassification. This effort is designed to make sure we have the best people possible, equipped to deliver on those expectations.

The FY 2012 Proposed All Funds Budget for Information Technology is \$12.9 million with the General Fund portion at \$11.5 million. This represents a 16.9% increase over FY 2011 and accounts for capital project management, centralization of licensing that had previously been funded in different departments or not accounted for, and the results of the IT staff reorganization and full staffing. It also accounts for the fact that we are simultaneously maintaining old systems, while installing and migrating to new ones.

EMPLOYEE COMPENSATION AND BENEFITS

Several significant changes are proposed to the general employees' compensation and benefits program. We are recommending a change to the City Employees' Pension Plan that creates a second tier of benefits which raises the normal retirement age from 55 to 60 and early retirement age from 40 to 45, reduces the benefit multiplier from 2.5% to 2.25%, and reduces the maximum payout from the IRS prescribed limit to not more than 90% of the average pay for three years prior to retirement. Interest paid on employee refunds will be reduced from 5.5% to 3% after seven (7) years of service. The second tier benefit will be mandatory for all employees hired after September 1, 2011, if approved by City Council. Employer and employee contributions will increase 0.6% and 0.3%, respectively, each year for the next four (4) years beginning September 1 (which is less than otherwise required), and the vesting period will be reduced from 10 to 7 years for all employees. The changes are needed to improve the actuarial position of the fund and to increase the plan's long-term sustainability. The proposed changes have been reviewed extensively and were recommended for approval by the Board of Trustees of the City Employees' Pension Fund on May 20, 2011.

We are also recommending several changes to the City's health benefits program to control overall costs. The changes include:

- Addition of a Consumer Driven Health Plan (CDHP) option beginning January 1, 2012. This option is in addition to the two (2) plans already offered to non-uniformed and uniformed fire employees, eligible dependents, and non-Medicare eligible retirees and their dependents. The plan will include a \$5,000 deductible with 100% benefits after the deductible is satisfied, include a Health Savings Account (HSA) feature for eligible employees and dependents and generate plan savings of approximately \$550 per member per year relative to current benefit plan offerings. First year reduction in plan costs is estimated to be \$140,000. Over time, as participation in the CDHP plan grows, plan savings will grow proportionally.
- Replacing the current self-funded benefit offer for Medicare Eligible Retirees with a fully insured Medicare Advantage Plan or Medicare Supplement Plan on January 1, 2012. This plan is expected to reduce the City's contribution toward health plan expenses by \$400,000, reduce the Medicare eligible retiree contributions by \$200,000 in the next fiscal year, and reduce the Government Accounting Standards Board (GASB) Statement 45 liability recorded in the City's balance sheets.
- Amending the requirement for hours worked from 40 hours per week to 30 hours per week to determine eligibility for health benefits. This change will allow more employees and their families to have access to affordable health care and reduce the number of uninsured El Pasoans.
- Creation of an automatic enrollment feature for non-uniformed and uniformed fire employees hired after September 1, 2011. This change will automatically enroll these new employees into the CDHP plan, preserving their right to buy up to the other plans offered or decline coverage if they can prove they have qualified coverage elsewhere, positioning the City to be in compliance with automatic enrollment requirements that are included in Health Care Reform legislation, providing better risk management adherence by creating a more desirable spread of the health risks over a larger and healthier population, and reducing the overall number of uninsured El Pasoans.
- Implementation of a Wellness initiative program to promote healthier lifestyles to reduce long term health claims cost and absenteeism while improving employee productivity. An up-front investment of \$300,000 is projected. However, it is anticipated that these changes over the next three (3) years will generate a return on investment of 3:1 or \$900,000.

As in the recent past, we are holding the annual step increase for employees with successful performance evaluations until the 4th quarter of FY 2012 to assure that we meet all expenditure

and revenue targets. The proposed budget includes longevity increases, funding for professional development and licensing requirements, the tuition reimbursement program, and the development of a recognition program including incentives to recognize outstanding performance, reliability, innovation and creativity.

In the summer of 2009, we piloted a 4/10 alternative work schedule to assess its cost-savings potential and customer service impact. City hours for participating agencies were modified to 7 AM – 7 PM, Monday thru Thursday, for various city administrative offices including City Hall. Public access was enhanced to 48 hours weekly even though actual work days were decreased. The result of the three-month pilot showed a savings of \$160,000, with a significant gas usage savings for that period that had been unanticipated. The pilot also showed a significant decrease in unscheduled employee absences and some overtime decrease. The customer feedback showed extensive public usage of the 7-8 AM access and from 5-6:30 PM, though it dropped considerably after 6 PM.

In FY 2011, City management recommended instituting a permanent 4/10 summer schedule, expanded from May 1 until October 1. City Council voted to implement the 4/10 alternative schedule for the same administrative agencies year round with daily operating hours set from 7 AM to 6 PM, Monday through Thursday.

Recently there have been concerns that a year-round 4/10 schedule is not in the best interest of the community from a customer service perspective. From a cost-savings aspect, it is substantial. Transitioning from a 5/8 to a 4/10 schedule saved an estimated \$430,000 annually, due to reduced utility usage (\$40,000) and less gas consumption (\$390,000). We have experienced a 6.2% reduction in fuel usage this year consistent with the implementation of 4/10. Some of the savings may be due to a reduction in fleet size or alternative fuel vehicles, but the vast majority can be attributed to the schedule change. City Hall Motor Pool vehicle use was reduced by nearly 34.0% from the previous year which we can attribute to the alternative work schedule. A comparison of employee sick leave usage from 2009 to 2010 summers shows a 19.0% decrease with the 4/10 study group, compared to a 9.7% increase with all civilian staff. If City Council wishes to reverse from 4/10 to a 5/8 work week, we will need to adjust the budget upwards by at least \$430,000 annually to cover the anticipated increased costs.

I recommend against eliminating 4/10 as it has proven to be a successful and cost-effective work schedule without diminishing productivity or customer service. I also want to note that the two agencies which seem to have the most public contact – the Tax Office and the Planning and Permitting operations on the 5th floor of City Hall – also have other service options that can conveniently be utilized by the public. We need to do a better job of educating and informing citizens about these alternative service options while highlighting the actual savings to the taxpayer from this scheduling change.

PERFORMANCE MANAGEMENT PROGRAM

During the next fiscal year, the City Manager's Office through the Office of Management and Budget will spearhead the effort to implement Performance Management and the transition to Performance Based Budgeting. To this end, the Government Finance Officers Association (GFOA) will send subject matter experts to provide workshops for the Mayor and City Council as well as executive staff on the merits and processes supporting Performance Management.

Performance Management is the most recent stage in the evolution of public-sector management. Early reforms focused on processes to eliminate financial improprieties, as well as nepotism, and to promote fair access to government contracts. Performance Management, while continuing to assure appropriate controls through effective processes, has expanded the meaning of accountability and protecting the public interest to encompass achieving results that benefit the public. While bureaucratic processes focus on preventing bad things from happening, Performance Management adds a focus on assuring that government actually produces positive results. Performance Management is becoming the new standard for public-sector management.

With the implementation of a new enterprise resource program, we are uniquely positioned to begin this transition to a budgeting model that will allow us to better understand and prioritize how we best use increasingly scarce resources. The new technology will free up staff time to focus on business processes and systems, regulations and the rationale for them, cost/benefits of services we are now providing and where we can eliminate, change, or redirect our efforts. Performance Based Budgeting will provide the elected officials with better information to make the increasingly tough decisions and choices City Council will face in the coming years.

INNOVATIONS AND SERVICE ENHANCEMENTS

Despite the stringent budget we have seen in recent the years, employee morale generally remains strong. Employees continue to engage and offer creative solutions that can improve the overall productivity and efficiency of the organization.

During FY 2011, many mid-level management employees took part in a Professional Development Leadership Series to address specific areas within the City organization. Each group developed plans, programs and/or recommended solutions to enhance efforts within the following areas:

- Internal Employee Communication – specific recommendations were made to reach out to all employees, especially those in operations and field levels
- Policies and Procedures – recommendations were made to include process mapping and a repository for all City related policies

- Employee Recognitions – an employee generated list of recognition and awards programs were provided for departmental implementation to recognize positive performance and enhance morale
- Networking & Continuing Professional Development – ongoing training programs and networking opportunities for all employees
- City Attorney Roundtable – an improved understanding of the legal decision-making process was provided to employees and an ongoing article is now provided in the monthly employee newsletter that shares information on common legal and business matters

The City also held its first ever Employee Think Tank in March 2011. The program, which was open to all City employees, not just executive or management staff, launched with six (6) volunteers from various departments including Fire, Zoo, General Services, Economic Development and Financial Services. The six (6) employees broke away from their regular jobs and immersed themselves into this program to work on any City related idea or project they so desired.

During the month-long program, participating employees were located jointly in a separate office space and dedicated their time to research, field work, data analysis, surveys and interviews relating to their projects. At the end of the month, the group presented their projects and recommendations for implementation to the City Manager, Deputy City Managers and several Department Heads. All six of the projects were well researched and organized and would provide a great benefit to the community. Three (3) of the programs have been included for implementation in the FY 2012 Proposed Budget and the others will continue to be developed for future implementation.

Project: First Contact Small Business Assistance Center

A First Contact Small Business Assistance Center would be located on the 5th floor at City Hall. Visitors coming to City Hall for assistance with starting a new business would be referred to this center where they would be provided information, access to various resources and other support. This effort would benefit the City by providing quick and direct access for entrepreneurs wanting to start a business and improve the City's "business friendly" climate.

Project: Review and Improve the City's Employee Recruitment Process

The City's recruitment and hiring process was evaluated beginning with the review of the NeoGov website intake process and embedded department Human Resource (HR) Analysts. After thorough research with various City departments and stakeholders and determining if the process is working well, recommendations were made to improve the system, including modification to job description information, enhanced communication processes and digitization of HR records.

Project: DigaSave – Centralized Mailing and Digital Signatures

Significant savings can be realized by revising the current mailing/postage and signature processes in the City of El Paso. A probable requisite to centralizing the certified portion of mail is to alter the current reliance of the City on manual signatures. Moving the City to adopt digital signatures as a substitute for manual ones would not be limited to external mail; it could also be applied to internal forms to produce additional savings, streamline internal operations, and allow departments to focus more on their core functions. The potential savings, both in monetary terms and staff time, associated with both centralized mailing and digital signatures are significant and make this project worthy of implementation.

REVENUES

As the nation emerges from the economic crisis that began in 2008, El Paso has been no exception. The City of El Paso expects to see modest growth in our revenue sources due to a sustained increase in our business-cycle index, which surpassed January at an annualized rate of 2.30%, as reported by the El Paso Federal Reserve Bank. Included in this growth are property valuations, sales tax and various building permits all of which are signs of continued recovery and contribute to the overall increase in General Fund revenue of 1.82%.

On June 6, 2011, the El Paso Central Appraisal District updated the 2011 Preliminary Certified Value estimates for properties within the city limits. The preliminary value increased by 2.35% over the 2010 adjusted certified tax value, which is based on the certified assessed valuation used to adopt the FY 2011 budget in August 2010. The City currently estimates a 3.82% discount in valuation due to protested property values. Certified values are expected in late July 2011. The discounted preliminary net taxable value for properties within the City of El Paso minus the Transportation Reinvestment Zones (TRZ) and the downtown Tax Increment Reinvestment Zone (TIRZ) is estimated at \$30.5 billion. New construction was valued at \$509.8 million and is up from the 2010 adjusted certified value by 11.1%.

To support the FY 2012 Proposed Budget, we are recommending a preliminary tax rate of 0.6537/\$100, which is slightly above the effective tax rate due to the debt service obligations. Based on the discounted preliminary valuation estimate, the FY 2012 Proposed Budget Tax Rate is as follows:

Adopted FY 2011 Tax Rate:

Operations and Maintenance Rate	\$0.4284/\$100
Debt Services Rate	<u>\$0.2253/\$100</u>
Total Adopted Rate	\$0.6537/\$100

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Proposed FY 2012 Tax Rate:

Operations and Maintenance Rate	\$0.4253/\$100
Debt Service Rate	<u>\$0.2284/\$100</u>
Total Proposed Tax Rate	\$0.6537/\$100
 Preliminary Effective Tax Rate	 \$0.6349/\$100
 Preliminary Effective O&M Tax Rate	 \$0.4296/\$100

The FY 2012 Proposed Tax Rate is the same as the FY 2011 Adopted Tax Rate. The net taxable value of an average home in El Paso, provided by the El Paso Central Appraisal District, increased from \$123,395 to \$123,801 or 0.3%, which equates to a \$2.65 annual increase or 22 cents a month with the FY 2012 Proposed Tax Rate.

Other major revenue changes include an increase in the environmental fee to \$3.00 for residential properties, \$14.00 for commercial properties, and a minimum \$16.00/load for landfill fees as outlined in more detail earlier in this message.

We are recommending some adjustments to ambulance and emergency response collections, but these changes will primarily affect third party collection efforts. They include eliminating the 'first mile free policy' and revising the ordinance to allow for collection of first response costs from insurance carriers that provide a rider for such items.

A schedule of proposed revenues by major category is provided as follows:

City of El Paso General Fund Revenue by Source			
Revenue Source	Adopted FY11	Proposed FY12	Variance FY11 Adopted/FY12
Taxes	203,204,251	207,704,934	2.21%
Franchises	43,937,625	42,632,835	-2.97%
Service Revenues	13,292,377	12,759,958	-4.01%
Operating Revenues	27,667,089	30,020,336	8.51%
Non-Operating Revenues	4,711,725	4,198,804	-10.89%
Intergovernmental Revenues	2,131,607	2,340,227	9.79%
Transfers In	20,604,791	21,636,559	5.01%
Grand Total	\$315,549,465	\$321,293,653	1.82%

General Fund Highlights:

- **Taxes:** Include an increase of \$1.8 million in property tax revenue to fund contractual obligations for public safety and an increase in sales tax revenue of \$2.8 million or 3.92% over FY 2011 Adopted Budget.
- **Franchise Fees:** Expect a net decrease of \$1.3 million as a result of a decline in Texas Gas/ONEOK, El Paso Water Utilities and AT&T franchise revenues and an increase in franchise fees paid by El Paso Electric and Time Warner which are projected to increase 3.4% and 4.3%, respectively.
- **Service Revenues:** Indicate a decrease of 4.01% from FY 2011 as a result of declines in the ambulance service revenue.
- **Operating Revenues:** Anticipate increases in Judicial Fines and Permit revenues by \$738,997 and \$602,660, respectively, over FY 2011. Indirect Cost Recovery is also expected to increase \$665,846 based on new grant agreements.

- **Non-Operating Revenues:** Reduced investment earnings are anticipated due to declining interest rates.
- **Intergovernmental Revenues:** Expect an increase of \$208,620 or 9.79% primarily due to a per parcel fee increase from \$0.62 to \$0.69 under consideration with taxing entities to be implemented in FY 2012.
- **Transfers In:** Reflect an increase of \$1.0 million primarily due to an increase from International Bridges revenues as a result of additional crossings and improved services.

City of El Paso All Funds Revenue by Source			
Revenue Source	Adopted FY11	Proposed FY12	Variance FY11/12
Taxes	317,866,738	328,263,991	3.27%
Franchises	60,743,183	60,888,442	0.24%
Service Revenues	108,589,548	109,336,184	0.69%
Operating Revenues	111,599,532	110,301,502	-1.16%
Non-Operating Revenues	16,380,474	18,197,604	11.09%
Intergovernmental Revenues	40,836,314	36,979,163	-9.45%
Transfers In	37,044,505	42,719,278	15.32%
Grand Total	\$693,060,294	\$706,686,164	1.97%

All Funds Highlights (may include previously described General Fund references):

- **Taxes:** Include an increase of 3.27% due to an additional \$7.3 million in property tax revenue to fund contractual obligations for public safety and debt service requirements, and an increase in sales tax revenue of \$4.2 million based on current and expected economic growth.
- **Franchise Fees:** Expect a net increase of 0.24% over FY 2011 from: (1) a decline in utility franchise revenue of \$1.2 million impacted by fluctuations in energy costs and customer demand; and (2) an increase of \$1.4 million from International Bridges revenue

due to current trends in vehicle/commercial crossings and the implementation of empty cargo vessel service at the Zaragoza Bridge.

- **Service Revenues:** Provide a net decrease of 0.69% from FY 2011 due to: (1) anticipated declines in passenger and cargo airline landing fees as the economy continues to affect demand for air travel and discretionary spending; (2) lower ambulance service collections; and (3) increases from the Federal Transit Administration for transit maintenance.
- **Operating Revenues:** Estimate a small decline of 1.16% from FY 2011 as a result of recognizing only Hotel Occupancy Tax revenues in the Convention and Performing Arts Center and reduced contributions to the Workers Compensation Fund. Judicial Fines and Permit revenues are expected to show some growth in the upcoming fiscal year.
- **Non- Operating Revenues:** Project an 11.09% increase over FY 2011; however, the City continues to experience decreased interest revenue as market interest rates remain low and decreased facility revenue as the demand for discretionary services continues to remain stagnant.
- **Intergovernmental Revenues:** Expect a decrease of 9.45% from FY 2011 as the federal government continues to curtail spending impacting federal and state grant funding for local governments.
- **Transfers In:** Reflect an increase of 15.32% over FY 2011 due to increases in inter-fund transfers needed to finance planned activities in FY 2012.

DEBT SERVICE

In April 2011, the City Council took a significant step in the administration of the City's long-term debt by revising its Debt Management Policy to increase the maximum allowable debt service tax rate by 2 cents to advance the aggressive capital improvement program designed to improve the City's infrastructure but also to include the additional capital requirements for the City's Rapid Transit System. This increase, from a cap of 25 cents to 27 cents, allows the City administration to accommodate the additional \$63 million in new debt authorization approved by Council in April 2011 for its 2012-13 short-term capital improvement program. This additional authorization focuses on improvements to the City's IT infrastructure, Fire Department initiatives, street infrastructure improvements, and city-wide facility and park improvements.

In accordance with the City's managed debt tax model, the City proposes to increase its debt service tax rate by approximately .0031 or 3/10 of a penny which is an approximate increase of 1.4% over FY 2011, to meet its debt service requirements in FY 2012. At a rate of 22.84 cents, the debt service tax rate accommodates a proposed certificate of obligations issuance of approximately \$50 million in late summer 2011. A conservative approach in forecasting allows

City administration to respond to changes in the variables underlying key assumptions such as the assessed valuation and market interest rates. This approach has allowed the City to maintain a solid "AA" rating from Standard and Poor's and an "AA" rating from Fitch in its most recent November 2010 bond issuance.

CONCLUSION

To summarize, the preliminary budget is at the ordinal rate, including debt service requirements. We have funded all core services, recommended expansion in certain key areas such as environmental services, police, fire and emergency management, information technology, and transportation. We have eliminated positions totaling nearly \$1 million in savings.

In closing, I want to thank the staff of the Office of Budget and Management who worked extremely hard over the past six months in rebuilding the agency, evaluating the past and future direction, and simultaneously putting together the FY 2012 Proposed Budget for your consideration. I also want to acknowledge the City Manager's staff and all city departments who cooperated and actively engaged in some very difficult decision-making and spending cuts. Finally, I want to thank all city employees who have remained committed and dedicated to this organization and community despite the financial constraints imposed on them. They have maintained the highest level of service regardless of the situation at hand, which is recognized in the recently updated customer service satisfaction survey.

I look forward to working with the Mayor and City Council as we begin deliberations on the FY 2012 proposed spending plan.

Respectfully submitted,



Joyce Wilson
City Manager